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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

FOURTH AGE LIMITED, a United Kingdom corporation; PRISCILLA MARY ANNE REUEL TOLKIEN, as TRUSTEE OF THE TOLKIEN TRUST, a United Kingdom Charitable Trust; THE J.R.R. TOLKIEN ESTATE LIMITED, a United Kingdom corporation; HARPERCOLLINS PUBLISHERS, LTD., a United Kingdom corporation; UNWIN HYMAN LTD., a United Kingdom corporation; and GEORGE ALLEN & UNWIN (PUBLISHERS) LTD., a United Kingdom corporation,

Plaintiffs,

v.

WARNER BROS. DIGITAL DISTRIBUTION, INC., a division of WARNER BROS. HOME ENTERTAINMENT, INC., a Delaware corporation; WARNER BROS. ENTERTAINMENT, INC., a Delaware corporation, as successor-in-interest to New Line Cinema Corp.; WARNER BROS. CONSUMER PRODUCTS, INC., a Delaware corporation; WARNER BROS. INTERACTIVE ENTERTAINMENT, INC., a division of WARNER BROS. HOME ENTERTAINMENT, INC.; NEW LINE PRODUCTIONS, INC., a California corporation; THE SAUL ZAENTZ COMPANY d/b/a Middle-earth Enterprises, a Delaware corporation; and DOES 1-10, inclusive,

Defendants.

Case No. CV 12-09912
ABC (SHx)

Hon. Audrey B. Collins

**DECLARATION OF
RICARDO P.
CESTERO IN
SUPPORT OF
SPECIAL MOTIONS
TO STRIKE THE
WARNER PARTIES'
FIRST
COUNTERCLAIM
FOR BREACH OF
CONTRACT AND
ZAENTZ' SECOND
COUNTERCLAIM
FOR BREACH OF
THE IMPLIED
COVENANT**

**[Declaration of Steven
A. Maier, Special
Motions to Strike and
Motions to Dismiss
filed concurrently
herewith]**

Date: May 13, 2013
Time: 10:00 a.m.
Courtroom: 680

1
2 AND RELATED COUNTERCLAIMS.
3

4
5 **DECLARATION OF RICARDO P. CESTERO**

6 I, Ricardo P. Cestero, declare:

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8 1. I am an attorney duly licensed to practice in all of the courts of the
9 State of California and I am a Partner of Greenberg Glusker Fields Claman &
10 Machtinger LLP, attorneys of record for Fourth Age Limited, Priscilla Mary Anne
11 Reuel Tolkien, as Trustee of the Tolkien Trust, the J.R.R. Tolkien Estate Limited,
12 Harper Collins Publishers, Ltd., Unwin Hyman, Ltd. and George Allen & Unwin
13 (Publishers), Ltd. (the “Tolkien/HC Parties”) herein. The facts set forth herein are
14 of my own personal knowledge and if sworn I could and would testify competently
15 thereto.

16 2. Attached hereto as Exhibit A is a true and correct copy of an
17 agreement dated July 8, 1969 between George Allen & Unwin, Ltd. (“GAU”) on
18 the one hand and United Artists Corporation on the other (the “GAU Agreement”).
19 As alleged in paragraph 34 of the Tolkien/HC Parties’ Complaint, GAU is a
20 predecessor in interest to Plaintiffs HarperCollins Publishers, Ltd., Unwin Hyman,
21 Ltd. and George Allen & Unwin (Publishers), Ltd.

22 3. Attached hereto as Exhibit B is a true and correct copy of an
23 agreement dated July 8, 1969 between Sassoon Trustee and Executor Corp.
24 (“Sassoon”) on the one hand and United Artists Corporation on the other (the
25 “Sassoon Agreement”). As alleged in paragraph 34 of the Tolkien/HC Parties’
26 Complaint, Sassoon is a predecessor in interest to Plaintiffs Fourth Age Limited,
27 Priscilla Mary Anne Reuel Tolkien, as trustee of the Tolkien Trust, and The J.R.R.
28 Tolkien Estate Limited. The GAU Agreement and the Sassoon Agreement are

collectively referred to as the 1969 Agreements. The 1969 Agreements granted to United Artists certain film, stage and live television rights in and to the literary works by J.R.R. Tolkien, *The Hobbit* and three volumes comprising *The Lord of the Rings* (the “Tolkien Works”).

4. Attached hereto as Exhibit C is a true and correct copy of Schedule D to the GAU Agreement, which was executed sometime after the GAU Agreement. Attached hereto as Exhibit D is a true and correct copy of Schedule D to the Sassoon Agreement, which was executed sometime after the Sassoon Agreement. Schedules D to the 1969 Agreements granted certain limited merchandising rights in and to the Tolkien Works.

5. Attached hereto as Exhibit E is a true and correct copy of an amendment to the Schedules D attached to the 1969 Agreements executed on or about October 20, 1975 (the “1975 Amendment”). The 1975 Amendment was executed by and between Sasoon and GAU on the one hand and United Artists Corporation on the other.

6. Attached hereto as Exhibit F is a true and correct copy of an agreement dated December 2, 1976 between United Artists and the Saul Zaentz Company (“Zaentz”) by which Zaentz acquired from United Artists all of United Artists’ rights under the 1969 Agreements and Schedules D thereto, as amended.

7. Attached hereto as Exhibit G is a true and correct copy of an agreement dated November 16, 1981 between predecessors of the Tolkien/HC Parties and Zaentz amending the terms of Schedules D to the 1969 Agreements. Schedules D, the 1975 Amendment and the 1981 Amendment are collectively referred to herein as the “Merchandising License.”

8. As admitted by paragraph 41 of the Warner Parties’ Answer and Zaentz’s Answer, in or about 1999, New Line Cinema entered into an agreement with Zaentz to acquire certain of Zaentz’s rights under the 1969 Agreements and the Merchandising License.

1 9. In 2001, 2002 and 2003, New Line Cinema released three major
2 motion pictures based on the three volumes of *The Lord of the Rings* (the “Films”).
3 Each of these films was extremely successful both with critics and with audiences.
4 Together, the films generated a reported \$6 billion in worldwide revenue.

5 10. Following the huge financial success of the Films, New Line Cinema
6 refused to pay the Tolkien/HC Parties a single penny based on their share of
7 defined gross receipts. Accordingly, on February 11, 2008, the Tolkien/HC Parties
8 sued New Line Cinema for more than \$150 million in unpaid profit participation
9 royalties owed to the Tolkien/HC Parties (the “Accounting Lawsuit”). I was one of
10 the attorneys of record for the plaintiffs in that suit.

11 11. After litigating the Accounting Lawsuit for over a year, in March
12 2009, the parties submitted the dispute to mediation before the Hon. Daniel
13 Weinstein, ret. I attended that mediation. The parties were unable to resolve the
14 dispute at that mediation, but returned for a further mediation session with Judge
15 Weinstein in August of 2009. Again, I attended the mediation. There, the parties
16 agreed in principle to the terms of a settlement. On or about August 21, 2009, the
17 parties executed a “Binding Term Sheet” containing the terms of the agreed
18 settlement. A true and correct copy of the Binding Term Sheet is attached hereto as
19 Exhibit H.

20 12. Among other things, the Binding Term Sheet provided that the
21 Tolkien/HC Parties would waive, and agree not to assert, any claim for statutory
22 termination of the 1969 Agreements that might have existed in their favor under the
23 United States Copyright Act. Further, the Binding Term Sheet provided that the
24 parties would negotiate in good faith on a long form agreement designed to
25 effectuate this waiver. In addition, the parties agreed to negotiate in good faith to
26 try and resolve their disputes regarding how to account for the Tolkien/HC Parties’
27 future profit participation interest in the Films or any future motion pictures based
28 on the Tolkien Works. The Binding Term Sheet was ratified and became binding in

1 September 2009.

2 13. Shortly after execution of the Binding Term Sheet, the parties began
3 negotiating the terms of an agreement to effectuate the waiver of the Tolkien/HC
4 Parties' copyright termination rights. I participated in those negotiations. Those
5 negotiations lasted for months. Ultimately, the parties reached an impasse and,
6 pursuant to paragraph 5 of the Binding Term Sheet, decided to submit the matter to
7 mediation before Judge Weinstein.

8 14. The parties conducted a two-day mediation session in August of 2010.
9 I attended the mediation. The parties did not reach agreement at the mediation
10 session, but continued negotiations thereafter with the help of the mediators. I
11 participated in those negotiations. Ultimately, on August 26, 2010, the parties
12 agreed to the material terms of a term sheet resolving their disagreements on both
13 the copyright termination issues and the accounting rules for the Tolkien/HC
14 Parties' participation in revenue from the Films and future films.

15 15. After reaching agreement on the material terms, the parties began
16 negotiating a new term sheet entitled the "Hobbit Binding Term Sheet." I
17 represented the Tolkien Parties in those negotiations. As of September 8, 2010, the
18 parties were still working on the final language of the Hobbit Binding Term Sheet.
19 On that date, I learned that the Warner Parties had purported to license the first
20 volume of *The Lord of the Rings* for use in an online slot machine game. The
21 Tolkien/HC Parties believed that the Merchandising License did not allow for either
22 gambling games or for video games accessible only online or through download.

23 16. On September 8, 2010, I telephoned Mark B. Helm, the attorney for
24 the Warner Parties with whom I had been negotiating the Hobbit Binding Term
25 Sheet, and informed him that the Tolkien/HC Parties had just learned of an online
26 slot machine game that they believed was beyond the scope of rights granted. I
27 informed Mr. Helm that the Tolkien/HC Parties would need to limit the scope of
28 the releases contained in the Hobbit Binding Term Sheet so as to preserve any

1 claims based on unauthorized activities that exceeded the scope of the rights
2 granted.

3 17. Over the next several days, the parties negotiated an appropriate
4 modification of the release language. I participated in those negotiations.
5 Ultimately, on September 14, 2010, the parties exchanged signatures on the Hobbit
6 Binding Term Sheet. A true and correct copy of the Hobbit Binding Term Sheet is
7 attached hereto as Exhibit I. Among other things, the Hobbit Binding Term Sheet
8 required that the parties enter into an agreement whereby the Tolkien/HC Parties
9 would revoke the prior grants of rights in the Tolkien Works to Zaentz and then
10 regrant precisely those same rights (the "Regrant Agreement"). In addition, the
11 Hobbit Binding Term Sheet contained an agreement regarding the accounting
12 provisions for film revenues. Finally, the Hobbit Binding Term Sheet contained
13 various limited releases of claims the parties may have had against each other.

14 18. Following the execution of the Hobbit Binding Term Sheet, the parties
15 engaged in negotiations on the terms of the long form Regrant Agreement. I
16 participated in those negotiations. During those negotiations, the parties included
17 provisions again preserving the Tolkien/HC Parties' rights to bring claims based on
18 the unauthorized exploitations of the Tolkien Works. Ultimately, the parties
19 executed the Regrant Agreement on September 30, 2010. A true and correct copy
20 of the Regrant Agreement is attached hereto as Exhibit J.

21 19. On September 20, 2010, ten days prior to the execution of the Regrant
22 Agreement, I sent a letter to Mr. Helm formally objecting to the unauthorized
23 online slot machine and demanding that the Warner Parties cease and desist from
24 any further such conduct. A true and correct copy of my September 20, 2010 letter
25 is attached hereto as Exhibit K.

26 20. On October 4, 2010, my partner, Bonnie E. Eskenazi sent a letter to
27 Thomas A. Magnani, counsel for Zaentz, asserting the Tolkien/HC Parties'
28 objections to the online slot machine game and enclosing a copy of my letter to Mr.

1 Helm. Ms. Eskenazi copied me on her letter to Mr. Magnani. A true and correct
2 copy of Ms. Eskenazi's October 4, 2010 letter is attached hereto as Exhibit L.

3 21. On October 8, 2010, Mr. Helm responded to my letter and contended,
4 among other things, that both Zaentz and the Warner Parties were fully authorized
5 to license both gambling games and video games accessible only online or through
6 download from the Internet. However, Mr. Helm suggested that the Warner Parties
7 were amenable to negotiating an amicable resolution to the dispute. A true and
8 correct copy of Mr. Helm's October 8, 2010 letter is attached hereto as Exhibit M.

9 22. On October 12, 2010, Ms. Eskenazi responded to Mr. Helm's letter.
10 Ms. Eskenazi copied me on her response. Ms. Eskenazi disputed all of the
11 contentions made in Mr. Helm's letter. Specifically, Ms. Eskenazi noted that prior
12 to Mr. Helm's October 8, 2010 letter, the Tolkien/HC Parties had never been aware
13 that Zaentz or the Warner Parties had ever licensed a video game that was
14 accessible only online or through download and did not require the initial purchase
15 of a tangible article such as a game cartridge or CD-ROM. Further, Ms. Eskenazi
16 informed Mr. Helm that the Tolkien/HC Parties had additionally learned that the
17 Warner Parties had purported to license physical slot machines for use in casinos,
18 and that such a use was also far beyond the rights granted under the Merchandising
19 License. A true and copy of Ms. Eskenazi's October 12, 2010 letter is attached
20 hereto as Exhibit N.

21 23. On October 13, 2010, Mr. Magnani responded to Ms. Eskenazi's letter
22 of October 4, 2010. Mr. Magnani copied me on his response. Similar to Mr. Helm,
23 Mr. Magnani contended that Zaentz was fully authorized to license gambling games
24 and video games accessible only online or through download. In addition, Mr.
25 Magnani asserted that Zaentz had sweeping trademark rights in services and other
26 areas outside of the rights granted by the 1969 Agreements and the Merchandising
27 License. A true and correct copy of Mr. Magnani's October 13, 2010 letter is
28 attached hereto as Exhibit O.

1 24. Ms. Eskenazi responded to Mr. Magnani's letter on October 25, 2010.
2 Ms. Eskenazi copied me on her response. As she had with the Warner Parties, Ms.
3 Eskenazi disputed the contentions in Mr. Magnani's letter and attempted to clarify,
4 among other things, that all prior video game activity of which the Tolkien/HC
5 Parties had been aware were sold in a physical format, requiring a game cartridge or
6 CD-ROM to play. A true and correct copy of Ms. Eskenazi's October 25, 2010
7 letter is attached hereto as Exhibit P.

8 25. Following this exchange of correspondence, the parties agreed to try
9 and negotiate a settlement of these disputes. Beginning in November 2010, I
10 attended several in-person meetings with counsel for the Warner Parties and Zaentz
11 in which we discussed various proposals for resolving the dispute. I also
12 participated in numerous telephone conferences of all counsel in which we tried to
13 work out a resolution. These discussions lasted well into 2011. Unfortunately, by
14 late 2011, the parties had been unable to reach an agreement.

15 26. In early 2012, the Tolkien/HC Parties requested that the parties again
16 submit their dispute to mediation in front of Judge Weinstein. After some
17 negotiation, in May, 2012 the parties agreed to mediate the dispute over the course
18 of two days. The Tolkien/HC Parties made arrangements for client representatives
19 to fly in from England to attend both sessions of the mediation.

20 27. The first day of mediation occurred on June 13, 2012 in San Francisco
21 and only Zaentz and the Tolkien/HC Parties attended. I attended the mediation.
22 That mediation session lasted all day. No agreement was reached. The second day
23 of mediation occurred in Santa Monica on June 16, 2012 and all three parties
24 attended. I attended the mediation. Unfortunately, no agreement was reached there
25 either. Following the two mediation sessions, the Tolkien/HC Parties and Zaentz
26 continued their discussions regarding a potential settlement. I was copied on that
27 correspondence. However, by September, 2012, it became clear that the parties
28 would not be able to resolve their differences amicably. Accordingly, the

1 Tolkien/HC Parties proceeded with filing this action on November 19, 2012.

2 28. The Tolkien/HC Parties have never asserted their claims regarding the
3 unauthorized activities at issue in this case with third parties. Specifically, although
4 they were fully entitled to do so, the Tolkien/HC Parties never sent cease and desist
5 letters to the Warner Parties' gambling licensees. Nor have the Tolkien/HC Parties
6 ever sent cease and desist letters to any third party licensee making unauthorized
7 online video games. The only place the Tolkien/HC Parties have ever asserted
8 these claims is in connection with the negotiations and discussions outlined in this
9 declaration.

10 29. On February 21, 2013, my partner Elisabeth A. Moriarty and I met and
11 conferred with counsel for the Warner Parties and Zaentz to discuss the substance
12 of this motion. Ms. Moriarty and I informed counsel for the Warner Parties and
13 Zaentz of the nature and substance of this motion and the concurrently filed
14 Motions to Dismiss and provided legal authorities supporting the Tolkien/HC
15 Parties' position.

16 30. In response to this discussion, counsel for each of the Warner Parties
17 and Zaentz indicated that they would be filing Amended Counterclaims. On March
18 11, 2013, the Warner Parties and Zaentz each filed First Amended Counterclaims.
19 Thereafter, on March 14, 2013, Ms. Moriarty and I met and conferred with counsel
20 for the Warner Parties and Zaentz and explained to them that we did not believe the
21 amendment cured the defects in the original counterclaims. Accordingly, we stated

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1 that Plaintiffs would still proceed with this motion and the concurrently filed
2 Motions to Dismiss.

3 I declare under penalty of perjury under the laws of the United States of
4 America that the foregoing is true and correct.
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6 Executed this 28th day of March, 2013 at Los Angeles, California.
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8 /s/ Ricardo P. Cestero

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Ricardo P. Cestero

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